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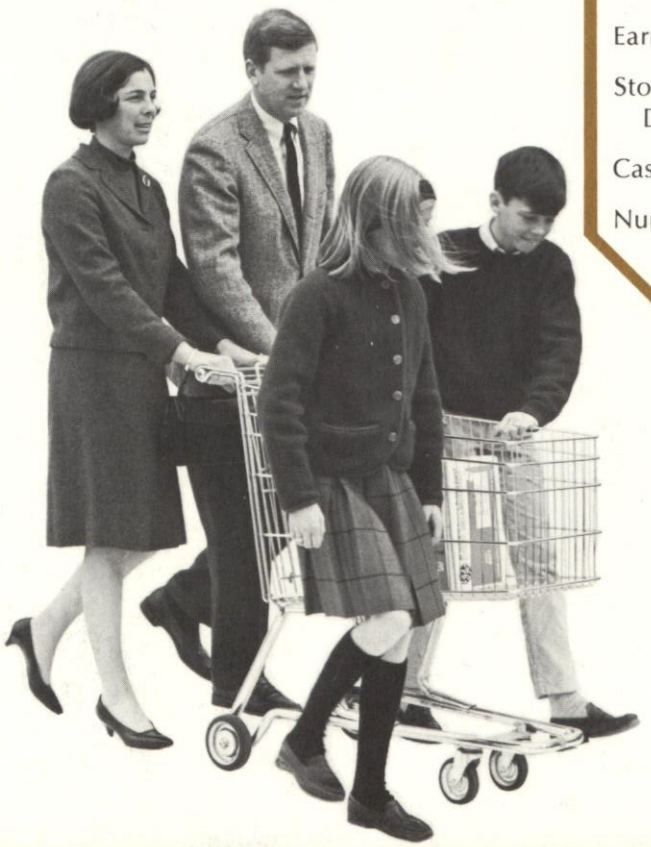
King's Department Stores, Inc.
Annual Report

For The Year Ended January 31, 1966

Financial Highlights

	1966	1965
Current Assets	$18,210,000	$15,467,000
Current Liabilities	6,318,000	5,810,000
Working Capital	11,892,000	9,657,000
Current Ratio	2.9	2.7
Stockholders' Equity	16,215,000	13,035,000
Equity Per Share*	10.62	8.54
Stock Split	—	5 for 4
Cash Dividends	.50	.30



Six-Year Review: For The Years Ended January 31

	1966	1965	1964	1963	1962	1961
Total Sales	$111,706,000	$100,819,000	$80,686,000	$62,031,000	$51,362,000	$41,854,000
Leased Department Sales	27,041,000	28,722,000	22,770,000	14,416,000	9,917,000	6,994,000
Net Sales	84,665,000	72,097,000	57,916,000	47,615,000	41,445,000	34,860,000
Leased Department and Other Income	2,887,000	3,012,000	2,287,000	1,504,000	1,047,000	747,000
Total Income	87,552,000	75,109,000	60,203,000	49,119,000	42,492,000	35,607,000
Cost of Goods Sold and Expenses	80,884,000	69,315,000	56,911,000	46,512,000	39,865,000	34,412,000
Income before Taxes	6,668,000	5,794,000	3,292,000	2,607,000	2,627,000	1,195,000
Provision for Taxes	2,990,000	2,690,000	1,571,000	1,306,000	1,293,000	519,000
Net Income	3,678,000	3,104,000	1,721,000	1,301,000	1,334,000	676,000
Earnings Per Share*	2.41	2.03	1.13	.85	.87	.44
Stock Split (Stock Dividend)	—	5 for 4	5%	5%	2%	—
Cash Dividends	.50	.30	—	—	—	—
Number of Stores	41	35	31	25	18	13

*Based on 1,526,789 shares outstanding.

LISTED: NEW YORK STOCK EXCHANGE
Ticker Symbol KDT

To the stockholders:

April 18, 1966

We are pleased to announce that King's Department Stores has just completed another successful and significant year of record earnings and sales.

Net earnings for fiscal 1966 were $3,677,578, or $2.41 per share, compared with $3,104,328, or $2.03 per share last year. Sales were 11% ahead of 1965, or $111,706,399, compared with $100,819,052 in 1965. Earnings on sales, reported at 3.3% for fiscal 1966, continue among the highest in the industry.

Dividends

King's is one of the few chains in the self-service department store field paying a regular dividend. On April 12, 1966 the directors voted a 10% stock dividend payable May 27, 1966 to shareholders of record April 29, 1966. The board announced its intention of maintaining the 12½ cent quarterly dividend. Applied to all shares outstanding, the extra stock dividend would be equivalent to a 10% increase in cash dividends paid by the company. Since 1961 we have had three previous stock dividends, one five for four stock split and have paid cash dividends since 1964 at the rate of 12½ cents a share per quarter.

Financial Position

King's is in a strong financial and working capital position. As at January 31, 1966 working capital amounted to $11,892,000, an increase of $2,235,000 over last year, reflecting a current assets to liabilities ratio of 2.9 to 1. Stockholders' equity per share was $10.62, representing a 24% increase over the preceding year.

Growth

During the year we opened seven new stores which added 469,000 square feet of selling space to our operations. New stores were located in Concord, New Hampshire; Lowell, Massachusetts; Winston-Salem and Raleigh, North Carolina; Norfolk, Newport News and Richmond, Virginia.

It is our policy to operate as many of our own departments as feasible. Last year we took over 13 health and beauty aid departments and 14 automobile, hardware and sporting goods units that had previously been leased to outside operators. With these operations under our control and method of doing business, we have already increased the sales of these departments with a significant profit return. This year King's will be operating all of its own health and beauty aid departments.

Outlook

For this year we plan steady expansion, and will add several new stores. We have no significant long-term debt and expect no increase because the program for this year, as in the past, will be financed through earnings. All the units of the chain are operating at a profit with one exception. We have a proven special promotion program in effect in this store which should correct the problem. We expect another record year of earnings and sales.

A review of this report will, we believe, suggest that King's has made significant progress in a relatively short period of time and today is a dominant entity in the self-service department store field. Our growth from the standpoint of new and expanded operations has been steady, healthy and profitable. Our sales volume has tripled in the last seven years and earnings have increased five-fold.

Acknowledgement

We sincerely thank our employees who have worked so diligently to make possible our growth. To you shareholders who have given us your confidence, to our suppliers for their cooperation and to our customers for their continued support, we say "Thank you".

Sincerely,

Aaron O. Cohen
Chairman

Murray A. Candib
President

It takes more than a ribbon cutting to open a new King's Store

Just cutting a ribbon on a new store doesn't assure success. King's record of producing profits in the first year of a new store's operation takes more than that. Experience, training, careful planning, hard work and painstaking attention to detail have enabled this pioneer self-service chain to open new stores and put them on a paying basis. This was true in the case of one of King's newest stores, officially opened to the public in Manchester, Connecticut in March of this year.

In line with its constant efforts to improve store facilities and bring greater shopping convenience to its customers and develop an increasing volume of business, King's management and key personnel spent months in planning the Manchester store and long hours in preparation for the big opening day, climaxed by the ribbon-cutting ceremony.

Located in a large shopping center, the Manchester store is typical of King's new units. Of modern, single-story design, the store has 70,000 square feet of floor space and a free parking lot which accommodates 1,500 cars. It has wide aisles, carefully planned lighting, easily identified departments which sell a broad range of attractively displayed merchandise for the entire family, and speedy checkout counters.

Raymond Demencuk, who manages the store, started with King's in Albany, New York in 1957. He, like other store managers, has been equipped for his duties under King's rigid continuing training program which has given him valuable on-the-job experience in all phases of merchandising and department store management.

In strategy huddle on eve of Manchester store opening Executive Vice President William F. Kenney, left, and aides check myriad last minute details before formal opening.

Officials and community leaders of Manchester show up prior to ceremonies to offer their cooperation and participate in the introduction of a new business venture into their community.

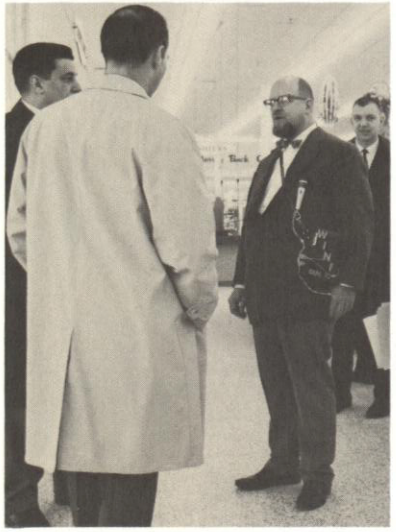
President Murray A. Candib goes over list of fashion items being featured in new store with Miss Laura Cipriani who works closely with New York Buying Office.

It takes a vast assortment of shoes in a variety of sizes and styles to supply the needs of the average family that shops at King's self-service stores.

Banks of checkout counters reduce long waiting lines, speed customers on their way. The thousands of items in King's stores like this new Connecticut outlet are clearly marked for customer convenience and accuracy by cashiers.

Attractively displayed merchandise has been in place long before customers arrive for the opening, but it all gets a thorough last minute check-out before the big event.

Sales staff gets final briefing by supervisory personnel on opening day. Salesladies offer customers help when needed. King's policy is to let customers browse at leisure.



Plans being worked out for coverage of opening ceremonies by a representative of Manchester radio station WINF, center. Publicity and radio-TV promotion are but one important phase of every new store opening.

Every day is sale day at King's Department Stores but opening day crowds still get a kick out of discovering special bargains as they enter the new Manchester store.

"About average for a store opening" say King's management as near-capacity is reached on the 1,500-car lot in front of the new Manchester store. Ease of shopping is one of the secrets of King's success.

A Decade of Progress

All of the original and still-active founders realized a decade ago that first-rate management is absolutely essential to the successful operation of a retail store. Therefore, they decided to plan store growth only as fast as they could fill new executive and store management positions with men of proven experience.

The present Executive Committee, for instance, is composed of men with an average of 31 years' experience in merchandising and store management.

The King's chain has an enviable record of producing profits in the first year of a new store's operation. Every new store operates with a carefully selected first team in command that knows the King's way of doing business and has the intelligence and dedication to put it into practice.

Management Development

King's operates on the principle that individual stores are run most efficiently and most profitably by managers who have maximum discretion in running their own stores, plus policies and incentives that attract and hold a competent staff.

Even experienced personnel must have at least three years in King's own management training program before they are considered for store management. This develops management skill and on-the-spot decisiveness that works in all phases of merchandising and department store management. This training program is on a continuing basis, with new men entering the training program at all times. For example, a typical assistant store manager has previously been a division manager with responsibilities in such departments as advertising, personnel and maintenance. In addition, he has been in charge of two or three major departments such as stylewear, sportswear, men's and boys' clothing or home furnishings. He earns a promotion to assistant store manager after demonstrating his abilities in the lower echelon. King's likes to give a man all the responsibility he can handle. In this way, King's is developing a group of young executives in all the key areas of its operation to accommodate an orderly rate of growth. A policy of promotions from within has developed high morale and low executive turnover throughout the organization.

King's keeps store managers and supervisory personnel informed on its latest thinking to get a constant playback from the field. To do this it brings all the store managers together for monthly managers' meetings throughout the year. Assistant and divisional managers meet twice a year. Regularly scheduled store meetings are held to discuss policy and procedures. As part of our training program we also have steering committees composed of experienced department personnel that keep buyers informed of merchandise needs and timing for their respective geographical locations.

King's employee incentive plan will continue to contribute greatly to the company's profit performance and, together with other fringe benefits such as stock options and improved health and life insurance coverage, will play an important part in keeping and attracting the best in management talent.

Emphasis On Quality

A pioneer in the discount field, King's introduced "one-stop shopping" more than a decade ago. With a variety of items from which to choose, its slogan "Everything For The Family At Discount Prices" is an apt one. Although the bulk of its merchandise is in the popular-to-better-price range, King's emphasis is on quality, not price. King's favors nationally advertised brands of high standards. Some merchandise, however, is manufactured for the King's label by selected and reputable firms, but always to strict quality control specifications. Its stock is, in fact, comparable in range to that of any good conventional or self-service department store. Everything King's sells carries a money-back guarantee.

In addition to its broad range of wearing apparel for every member of the family, King's generates sales from its curtains, draperies, linens, domestics, rugs, yard goods, yarn, electric appliances, giftware, lamps, pictures, mirrors, paint, occasional furniture, men's and women's toiletries, patent medicines, prescription drugs, school supplies, stationery, toys, automotive, housewares; hardware and sporting goods departments. Some major units have furniture, home improvement, camera, bakery, major appliance and pet departments. King's stores also have service departments such as dry cleaning, watch repair, beauty salons and barber shops.

Efficiency Of Operation

Almost all of King's stores are principal tenants in shopping centers in residential areas. Designed specifically for discount operations, they embody every modern convenience—unlimited free parking, air-conditioning, bright interior lighting, pleasing decor, wide aisles, orderly departmentalized displays with goods clearly marked, speedy checkout facilities and convenient store hours. They are housed in single story buildings with modern appointments and are operated, principally, on a cash-and-carry basis. Convenient to customers, they provide lower cost rentals and maintenance than would be expected in multi-floor operations in conventional downtown locations.

Centralized planning, control and administration; uniform quality, pricing and advertising, and quantity buying for multiple stores also reduce operating expenses, overhead and unit costs on merchandise. King's, for instance, operates with a minimum of warehouse space because an extremely high percentage of all merchandise is shipped directly from the suppliers to the individual stores. By keeping all costs to a minimum through efficient management and distribution King's produces substantial savings that are passed on to the customer.

Our New York Buying Office

In another move to improve efficiency in buying fashion wearing apparel, and to better service its growing chain, King's last year expanded its own buying office facilities in New York. Men's, women's and children's clothing are purchased here in the heart of the fashion center. All other categories of merchandise are bought through the Newton buying office.

Maintaining The Quality Image

The King's chain has built a reputation for offering high quality merchandise at a low price. Names like General Electric, Westinghouse, Sunbeam, Libbey, DuPont, Cannon, J. P. Stevens, Proctor-Silex, Revere, Arvin, Mirro, Toni, Breck, Bradley, Johnson and Johnson, Lionel, Parker, Curity, Flint and many other recognized brands are found in King's stores. The chain's accelerated growth has been made possible by the availability of a broad range of products like these for every member of the average family. King's has grown on the strength of convenience of one-stop shopping and customer confidence. Future planned growth will be predicated on these principles.

Officers and directors of King's discuss plans for new store openings during the coming year. Left to right are: Nathan Greenberg, treasurer; William F. Kenney, executive vice president; Murray A. Candib, president, and Aaron O. Cohen, chairman of the board.

On hand for regular board of directors meeting in New York are, from left, Benjamin M. Fiegar, assistant treasurer; Charles J. Kittredge, Jr., vice president, First National Bank of Boston; Aaron G. Goldberg, vice president, and Jack I. Hartblay, vice president.

Directors
Murray A. Candib
Aaron O. Cohen
Benjamin M. Fiegar
Aaron G. Goldberg
Nathan Greenberg
Jack I. Hartblay
William F. Kenney
Charles J. Kittredge, Jr., Vice President, First National Bank of Boston.
H. Stanley Krusen, President, Shearson, Hammill & Co. Inc., New York.

Officers
Aaron O. Cohen, Chairman of the Board
Murray A. Candib, President
William F. Kenney, Executive Vice President
Aaron G. Goldberg, Vice President
Jack I. Hartblay, Vice President
Nathan Greenberg, Treasurer
Benjamin M. Fiegar, Assistant Treasurer

Transfer Agents
Old Colony Trust Company, Boston.
Marine Midland Trust Company, New York.

Registrars
First National Bank of Boston.
Chemical Bank New York Trust Company.

General Counsel
Parker, Chapin and Flattau, New York.

Auditor
Peat, Marwick, Mitchell & Co.

Executive Offices
150 California Street,
Newton, Massachusetts 02158

KING'S DEPARTMENT STORES, INC. AND SUBSIDIARIES
Statement of Consolidated Earnings and Retained Earnings

	Year ended January 31, 1966	1965
Total store sales	$111,706,399	$100,819,052
Less leased department sales	27,041,600	28,721,612
Net sales	84,664,799	72,097,440
Leased department income	2,736,628	2,815,356
Interest and other income, net	151,033	196,326
Total income	87,552,460	75,109,122
Cost of goods sold, transportation and buying expenses	61,283,009	53,023,906
Store operating, administrative and general expenses, including leased department expenses	18,994,335	15,771,859
Depreciation and amortization	607,536	518,923
Total costs and expenses	80,884,880	69,314,688
Earnings before Federal income taxes	6,667,580	5,794,434
Federal income taxes (note 4)	2,990,002	2,690,106
Net earnings	3,677,578	3,104,328
Retained earnings at beginning of year	6,381,741	4,057,865
	10,059,319	7,162,193
Deduct:		
Cash dividends paid, $.50 per share ($.30 in 1965)	755,966	447,180
Par value of 298,453 shares issued as a five-for-four stock split plus cash for fractional shares	—	333,272
	755,966	780,452
Retained earnings at end of year	$ 9,303,353	$ 6,381,741

See accompanying notes to financial statements.

The Stockholders and
The Board of Directors
King's Department Stores, Inc.:

We have examined the consolidated balance sheet of King's Department Stores, Inc. and subsidiaries as of January 31, 1966 and the related statement of earnings and retained earnings and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of King's Department Stores, Inc. and subsidiaries at January 31, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds for the year ended January 31, 1966 presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
2000 Tower Building, Prudential Center
Boston, Massachusetts 02199

April 1, 1966

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.

Assets	January 31, 1966	1965
Current assets:		
Cash	**$ 2,737,583**	$ 3,355,190
Time deposits (1965 includes commercial paper of $1,993,125)	**1,500,000**	3,493,125
Accounts receivable:		
Budget receivables	**127,647**	133,574
Other	**290,253**	271,613
Total receivables	**417,900**	405,187
Merchandise inventories, at lower of cost or market, principally by the retail method	**13,361,250**	8,054,521
Prepaid expenses	**192,901**	159,344
Total current assets	**18,209,634**	15,467,367
Fixed assets, at cost:		
Land and land improvements	**163,063**	163,063
Fixtures and equipment	**5,895,545**	4,583,777
Leasehold improvements	**958,188**	765,502
	7,016,796	5,512,342
Less accumulated depreciation and amortization	**2,598,763**	1,991,227
Net fixed assets	**4,418,033**	3,521,115
Other assets:		
Cash surrender value of life insurance	**92,948**	81,469
Unamortized leasehold acquisition costs (being amortized over lives of leases)	**611,849**	645,841
Miscellaneous investment	**10,000**	—
Total other assets	**714,797**	727,310
	$23,342,464	$19,715,792

Balance Sheet

Liabilities and Stockholders' Equity	January 31, 1966	1965
Current liabilities:		
Current installment on long-term note payable	**$ 130,444**	$ 126,341
Accounts payable	**2,778,626**	2,473,135
Accrued expenses	**877,633**	536,594
Federal income taxes	**2,531,032**	2,674,546
Total current liabilities	**6,317,735**	5,810,616
Deferred credits:		
Federal income taxes applicable to accelerated depreciation deducted for tax purposes	**363,026**	319,724
Deferred compensation, net of Federal income taxes	**26,000**	—
Total deferred credits	**389,026**	319,724
3½% note payable due in annual installments to 1969	**420,251**	550,659
Stockholders' equity:		
Common stock, $1 par value (note 2) Authorized 2,000,000 shares; issued 1,526,789 shares (1965—1,497,391 shares)	**1,526,789**	1,497,391
Additional paid-in capital (note 3)	**5,385,310**	5,155,661
Retained earnings	**9,303,353**	6,381,741
Total stockholders' equity	**16,215,452**	13,034,793
	$23,342,464	$19,715,792

See accompanying notes to financial statements.

Notes to Financial Statements

January 31, 1966

(1) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions have been eliminated in consolidation.

(2) Stock Option Plans

Restricted stock option plans established in 1961 and 1963 provide for the granting of options to officers and key employees to purchase shares of common stock of the Company at a price of not less than 95% of the fair market value at the date of grant and are exercisable at the cumulative rate of 20% annually.

The 1964 qualified stock option plan, which meets the requirements of the Revenue Act of 1964, provides for the granting of options at prices not less than fair market value on date of grant. The options are exercisable at the cumulative rate of 25% annually. Options terminating or expiring under this plan are available for options under the plan.

During the year options became exercisable to purchase 17,824 shares at $8.79, $9.41 and $28.00 per share or a total of $205,023 as compared with quoted market value of $23.25, $27.75 and $22.00 per share or a total of $413,646.

Details of options outstanding under the plans and shares available for option under the 1964 plan follow:

	Number of shares	
	Issuable under options granted	Available for option
Balance at beginning of year	67,331	14,832
Changes during the year:		
Options granted at $22.25 per share or a total of $55,625	2,500	(2,500)
Options exercised at $8.79 and $9.41 per share or a total of $259,047 as compared with quoted market prices ranging from $22.12 to $28.62 per share or a total of $708,896	(29,398)	—
Options terminated	(2,554)	700
Balance at end of year	37,879	13,032

(3) Additional Paid-in Capital

Balance January 31, 1965	$5,155,661
Excess of option price over par value of 29,398 shares issued under stock option plans	229,649
Balance January 31, 1966	$5,385,310

(4) Federal Income Taxes

	1966	1965
Federal income taxes consist of:		
Taxes currently payable, less investment credit of $58,377 ($28,341 in 1965)	$2,954,700	$2,684,800
Deferred taxes	35,302	51,670
Restoration of prior years' investment credit	—	(46,364)
	$2,990,002	$2,690,106

(5) Commitments

Total minimum annual rentals payable under leases expiring after three years amounts to approximately $3,165,000 in 1969 with diminishing amounts thereafter to 1988.

Consolidated Statement of Source and Application of Funds

	Year ended January 31,	
	1966	1965
Funds were provided by:		
Net earnings for the year	**$3,677,578**	$3,104,328
Depreciation and amortization of fixed assets	**607,536**	518,923
Amortization of leasehold acquisition costs	**33,992**	31,159
Deferred credits, net	**69,302**	5,306
Sale of common shares under stock option plans	**259,047**	235,314
3½% note payable	—	550,659
	4,647,455	4,445,689
Funds were applied to:		
Additions to fixed assets, net	**1,504,454**	763,890
Cash dividends	**755,966**	447,180
Leasehold acquisition costs	—	677,000
Decrease in long-term debt	**130,408**	—
Increase in cash surrender value of life insurance	**11,479**	21,523
Miscellaneous investment	**10,000**	—
Cash paid in lieu of fractional shares of stock	—	34,819
	2,412,307	1,944,412
Increase in working capital	**$2,235,148**	$2,501,277

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King's Department Stores, Inc. and Subsidiaries

Main Offices: 150 California Street, Newton, Massachusetts 02158

Albany, New York
Allentown, Pennsylvania
Atlanta, Georgia
Auburn, Maine
Brockton, Massachusetts
Buffalo, New York
Cheektawago, New York
Concord, New Hampshire
Denver, Colorado
Durham, North Carolina
Edgewater Park, New Jersey
Falmouth, Maine
Fitchburg, Massachusetts
Ft. Lauderdale, Florida
Greensboro, North Carolina
Hyannis, Massachusetts
Jacksonville, Florida
Lowell, Massachusetts
Manchester, Connecticut
Meriden, Connecticut
Methuen, Massachusetts
Milford, Connecticut
New Haven, Connecticut
Newport News, Virginia
Newton, Massachusetts
Niagara Falls, New York
Niles, Ohio
Norfolk, Virginia (2)
Portsmouth, New Hampshire
Raleigh, North Carolina
Richmond, Virginia
Rutland, Vermont
Seymour, Connecticut
Shrewsbury, Massachusetts
Springfield, Massachusetts
Stamford, Connecticut
Vineland, New Jersey
West Palm Beach, Florida
West Seneca, New York
Winston-Salem, North Carolina (2)